

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMVOTI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umvoti Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 35 to 74.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 2 to the financial statements, the corresponding figures for 2008-09 have been restated as a result of an error discovered during 2009-10 in the financial statements of the Umvoti Municipality at, and for the year ended, 30 June 2009.

Material under-spending of the budget

10. The capital budget of R63,225 million was under-spent by R39,506 million. This was in respect of housing projects that did not materialise during the year under review.

Irregular expenditure

11. As disclosed in note 36.2 to the financial statements, irregular expenditure to the amount of R3,089 million was incurred as a proper tender process had not been followed.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

13. The unaudited supplementary schedules set out on pages 68 to 74 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, Municipal Supply Chain Management Regulations – GNR 868 of 30 May 2005 (MSCMR), and Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)) and financial management (internal control).

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

Inadequate content of integrated development plan

16. The integrated development plan (IDP) of the Umvoti Municipality did not include the key performance indicators and performance targets set in terms of its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan (IDP), i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit finding relates to the above criteria:

Planned and reported performance targets not specific/measurable/time bound

17. The IDP projects for the completion of existing housing projects, staff training on waste management, and agricultural and manufacturing projects were not:
- specific in clearly identifying the nature and required level of performance;
 - measurable in identifying the required performance; and
 - time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Non-adherence to legislation

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

The accounting officer did not adhere to his statutory responsibilities

18. Adequate processes were not in place for financial, risk management and internal control, in that, risk assessments were not performed, as envisaged in section 62(1) (c).

Supply chain management legislative requirements were not implemented or not adhered to

19. Supply chain management (SCM) records were not maintained in an orderly manner, as required by section 62(1) (b).

Municipal Supply Chain Management Regulations – GNR 868 of 30 May 2005 (MSCMR)

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

20. Regulation 38(1)(g) was not complied with, as contracts were awarded to a bidder that acted unfairly in competing for particular contracts.

Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)

21. No performance evaluations were completed, as required by section 57(4) (b).

Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) (CIDB)

22. No construction contracts were registered with the CIDB, as required by section 22(3).

INTERNAL CONTROL

23. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations (MFMA, MSCMR and MSA) but not for the purpose of expressing an opinion on the effectiveness of internal control.
24. The matters reported below are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

25. The leadership did not exercise adequate oversight over daily and monthly controls to improve financial, compliance and performance reporting because decisive actions had not been taken to mitigate avoidable risks. Moreover, the importance of accountability as well as the safeguarding of resources was not emphasised, which resulted in irregular expenditure.

Financial and performance management

26. The financial statements were not reviewed for completeness and accuracy and were subjected to material amendments resulting from the audit. Moreover, the financial reporting framework requirements and the importance of internal controls with regard to the safeguarding of vital documentation were not understood and communicated.

Governance

27. The risk of material misstatement due to fraud was not adequately considered, as evidenced by the weaknesses noted in the procurement and contract management component, as well as the absence of a fraud prevention plan, coupled by the non-performance of risk assessments. In addition, internal controls were not selected and developed to prevent, detect and correct weaknesses timeously.

OTHER REPORTS

Investigations

Investigations completed during the financial year

28. An investigation was conducted by an independent consulting firm on request of the municipality. The investigation was initiated based on the allegation of SCM irregularities for the period 1 January 2007 to 31 December 2009. The investigation had recommended that the bid adjudication committee be trained on the SCM policy.

Pietermaritzburg

30 November 2010



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence